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EXECUTIVE COMMITTEE OF THE
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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 1999

Addendum 1 - Measures taken or proposed in response to the recommendations in the Report of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 1999.

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I. INTRODUCTION

1. In accordance with paragraph 10 of General Assembly resolution 47/211 of 23 December 1992, the following is a report on measures taken or to be taken by UNHCR in response to the Recommendations of the Board of Auditors, as set out in paragraph 13 of their Report (A/AC.96/933). Unless indicated otherwise, all references in the text relate to this document. It also provides information on measures taken or to be taken on previous recommendations not fully implemented as detailed in paragraph 8 of the Report of the Board of Auditors.

Financial management

II. RECOMMENDATION 13(a)

2. Ensure complete and accurate disclosure of non-expendable property; urge all field offices to submit updated inventory databases; prepare the comprehensive database for non-expendable property based on the same cut-off date; and conduct on a regular basis physical stock checks (para. 21);

Measures Taken by the Administration

The management of non-expendable property (NEP) in UNHCR is a decentralized process. In the field, each country operation is responsible for maintaining a complete and accurate database of the NEP under their care and under the care of implementing partners. At Headquarters, NEP management is the responsibility of the Building Service Management Unit. The Asset Management Unit, within Financial Resources Service, is responsible for compiling the figures which are included in the Financial Statement.

Until 1999, the Office was using MINDER software to facilitate the recording of the pertinent NEP data. The software was not Y2K compliant and required upgrading. In the second quarter of 1999, however, the vendor of MINDER notified the UNHCR that it would not continue to support this software in 2000. Moreover, the sofware was found to be not "user friendly" and was beset with technical problems. This led to a low overall compliance rate in NEP data reporting. Nevertheless, Headquarters and the UNHCR Internal Audit Section of OIOS repeatedly urged field offices to submit updated inventory databases throughout the year.

The MINDER software has been replaced with an interim solution, (pending the full rollout of the Integrated Systems Project), known as AssetTrak. AssetTrak is a simplified, "user friendly" programme that operates in the Microsoft Windows operationg system environment. The software was rolled out in May 2000 and the field's response has been very positive, confirming the ease of use and simplicity of the programme. During the rollout, all responsible parties were reminded of the requirement to conduct an annual physical check of the NEP.

In an organization as large as UNHCR, operating in over 180 countries worldwide, carrying out a comprehensive inventory with a single cut-off date represents a huge challenge. The Office will endeavour to confirm the accuracy of field offices' inventories during the fourth quarter and/or update them for use in consolidating the figures provided in the Financial Statements.

III. RECOMMENDATION 13(b)

3. Reconcile the unliquidated obligations reported at year-end by field offices to ensure that there is no overstatement of expenditures in the accounts (para. 24);

Measures Taken by the Administration

UNHCR would like to reassure Executive Committee members and the Board of Auditors that this matter was thoroughly reviewed throughout the year and during the year-end closure exercise. The guidelines for accounts closure for the year 2000 will be made more explicit and clearly define the responsibilities of programme managers both in the field and at Headquarters. During the year, this matter was discussed in the monthly coordination meetings between Financial Resources Service and the Senior Resource Managers within each operation. In an effort to reconcile unliquidated obligations during the year, instructions have been issued linking the requests for increases in obligations with the reconciliation of prior year's unliquidated obligations. During the year-end closure, a project by project review takes place to ensure that the unliquidated obligations reported are justified and properly documented prior to recording in the accounts.

Of the $ 165.3 million referred to by the auditors in paragraph 23 of their Report which remained unliquidated as at year-end, an amount of $ 88 million has been liquidated in the first half of 2000. Additionally, $ 27.5 million, or 16.6 per cent, concern unliquidated obligations under administrative projects for which the normal liquidation period for administrative expenditures is 12 months. The relevant supporting documentation on this issue was made available to the auditors. Lastly there are a number of projects whose duration extends into 2000, therefore it is considered legitimate to retain the unliquidated obligations.

The remaining balance has been systematically reviewed and obligations no longer required have been cancelled. It should be noted that field offices supervise project implementation based upon certain assumptions as to what can be achieved. Constraints to implementation often occur, which preclude offices and their implementing partners from completing activities. In many countries, UNHCR operates under circumstances that can be described as uncertain at best. Field offices budget and establish obligation levels using their best judgement, but can only liquidate their obligations if circumstances so permit. If, for example, financial reports from implementing partners requesting final instalments do not arrive before the end of the year, UNHCR cannot simply cancel the remaining budget balance. If implementation has proceeded according to schedule, late instalments will be required and obligations must be retained.

As explained above, unliquidated obligations that are no longer required are cancelled during the following year and are reported in the financial statements as such. However, the fact that unliquidated obligations may be cancelled should not be interpreted as an "overstatement of expenditures" in the accounts for the previous year.

IV. RECOMMENDATION 13(c)

4. Urge implementing partners with long outstanding advances to submit their final sub-project monitoring reports and facilitate the clearance of projects (para. 32);

Measures Taken by the Administration

In 1999, and continuing in 2000, the Office has made very good progress in its efforts to obtain final sub-project monitoring reports from all of its partners. In the course of 1999, the unreported on balance of instalments to implementing partners for the years 1994 through 1997 was reduced by 49 per cent, from $ 63.4 million to $ 32.2 million. In the first six months of 2000, this figure was reduced by a further $ 10.6 million. The management controls elaborated on in response to Board of Auditors' recommendation 13(g) are proving effective towards controlling the ageing of instalments provided to our partners.

V. RECOMMENDATION 13(d)

5. Continue exerting efforts to encourage implementing partners to submit the required audit certificates (para. 37);

Measures Taken by the Administration

In the follow-up on actions taken to implement the recommendations contained in the Board of Auditors' report for the year 1998 (A/AC.96/933, Annex, paras. 6 and 7). UNHCR indicated that, with the introduction of the new policy and conceptual approach adopted in 2000, the compliance rates for the submission of audit certificates by implementing partners were expected to improve. The essential elements of the new policy and approach are as follows:

(i) Governmental partners

The current deadline of three months after liquidation date has proven to be too short. In many countries, the governments' audited financial statements are not available before the second half of the following year. In some countries, the audit of government accounts is not systematically done on a yearly basis. Indeed, many countries have a policy of auditing their institutions every two years and on a random basis, therefore UNHCR projects may not be included in the sample chosen by the governments' audit institutions. As a first step, our offices in the field will be requested to identify, in the sub-agreement, "the appropriate government audit authority" prior to the implementation of the sub-project. The deadline will also be extended to six months after the final liquidation date and limit the audit certificate requirement to governmental partners with projects of aggregate value of $ 100,000 and above.

(ii) National non-governmental organizations (NGOs)

The audit certificates will be the result of a project audit whose scope is limited to the implementation of the UNHCR sub-project(s). To improve compliance with minimum requirements for the objectives, scope and report structure of such audits, and the basis of the audit opinion, guidelines have

been developed. The guidelines contained in the UNHCR Manual have been revised to include guidance on the engagement of audit firms for the independent audit of UNHCR projects.

(iii) International NGOs

With the introduction of the requirement for international NGOs to submit consolidated audited financial statements for 1998, the compliance rate has increased from 82.6 per cent for 1997 projects as of June 1999 to 88.8 per cent for 1998 projects as of June 2000. In many cases, international NGOs follow different fiscal years than the project year (for instance, April to March, June to July or October to September), while UNHCR projects normally follow the calendar year. Therefore, the timeliness of submissions remains a problem which UNHCR has very little control over.

To further improve the quality of the discousure, UNHCR has introduced the requirement of note or schedule to be attached to the implementing partner's financial statements, detailing by sub-projects, the UNHCR funds received and spent as well as any unspent balances or balances due to/from UNHCR. This note or schedule will have to be certified by the NGO's independent auditor. In line with other categories of implementing partners, UNHCR has decided to limit the audit certificate requirement for international NGOs with sub-projects totalling an aggregate value of $ 100,000 or more in a given year.

UNHCR has also proposed that a different conceptual approach be taken with regard to the role the availability of audit certificates has in the process of auditing UNHCR's financial statements. The Board of Auditors has agreed to de-link these two elements. Audit certificates are seen as an essential component of UNHCR's control systems, reassuring management that implementing partners' financial reports can be relied upon and the Board of Auditors that proper control is in place. If positive assurance is provided, year by year, the final financial Sub-Project Monitoring Reports (SPMRs) from implementing partners should be a sufficient basis for the external audit of UNHCR's financial statements. This means that the team auditing the UNHCR accounts for 2000 would not rely on the audit certificates for 2000 projects, but would review the certificates received for the previous years. A review of compliance and quality of the certificates for the previous years should provide the team with assurances that proper controls are in place in UNHCR.

In addition to increasing the number and percentage of audit certificates submitted and improving their quality, UNHCR is committed to make better use of the information provided. Furthermore, in compliance with the auditors' recommendation, UNHCR undertakes a yearly collection campaign, targeting major international and national NGOs implementing projects with an aggregate value of $ 1 million or more.

UNHCR is of the opinion that this overall policy change, being incorporated in the revised UNHCR Manual, adequately addresses this recommendation.

Management issues

VI. RECOMMENDATION 13(e)

6. Immediately address rolling out of the new asset management system for effective management and control of assets (para. 60);

Measures Taken by the Administration

The roll out of the new asset management system AssetTrak took place on 5 May 2000. To date, out of 120 field offices, 61 responses have been received. A reminder was sent to those offices that had not replied, emphasizing the importance of the submission of the AssetTrak database. All field office managers have also been reminded of their responsibility in this regard.

VII. RECOMMENDATION 13(f)

7. Require all field offices to provide adequate segregation of incompatible functions such as accounting, procurement and cashiering to ensure strong check and balance of responsibility and to strictly adhere to the United Nations Financial Regulations and Rules (para. 66);

Measures Taken by the Administration

UNHCR agrees with the auditors that this is one of the most important internal control mechanisms and, whenever possible, this principle is enforced. However, in many UNHCR offices segregation of functions cannot be fully implemented due to the size of these offices. Complete implementation would result in the need to increase staffing and therefore costs. This would then be incompatible with the recommendation made under paragraph 44 of the Report. Furthermore, segregation should be judged against materiality and UNHCR's financial risk exposure.

UNHCR is currently introducing new policy guidelines dealing with the delegation of authority, in them UNHCR emphasizes the importance of segregation of duties. A number of compensating control measures are being suggested for implementation in field offices where staffing levels are low.

Potential risks are being minimized by implementing stricter monitoring and control of field offices, both through Headquarters inspection and evaluation missions and the UNHCR Internal Audit Section.

VIII. RECOMMENDATION 13(g)

8. Streamline project implementation by ensuring that release of instalments to implementing partners are on time (not delayed nor in advance), that sub-project monitoring report are regularly submitted by the field offices to allow headquarters to assess the progress of the ongoing projects. The Board also suggests that field offices closely monitor the performance of implementing partners to provide them with adequate information to determine whether these implementing partners should be considered in future UNHCR projects (para. 77);

Measures Taken by the Administration

UNHCR would like to reassure the Board that systems are in place to control the timely release of instalments to implementing partners. The procedures for release of instalment payments under operational projects to UNHCR's implementing partners are contained in IOM/FOM/13/99 of 21 January 1999. This instruction replaces the old section 6.5 of Chapter 4 of the UNHCR Manual dated December 1995 concerning Implementing Partner Recording (IPR).

The UNHCR functional entities involved in the processing of payments to Implementing Partners are: (i) UNHCR Representative or Head of Country Office (ii) Programme Unit (iii) Finance Unit Field and or Headquarters.

After the first instalment is made, payment of a further instalment in advance should normally not take place. An instalment payment may be made only when requested by the implementing partner and where the cash balance on hand from previous instalments is reduced to 30 per cent or less of the latest instalment paid. This margin is essentially to allow UNHCR to process the next instalment payment in a timely manner. Delays in payment of instalments to an implementing partner normally do not occur, unless the partner was delayed in requesting the instalment payment. If an instalment payment is requested when the level of cash on hand is well below 30 per cent, the time for processing the next instalment payment may be inadequate, thus resulting in a delay. Notwithstanding the fact that the cases witnessed by the auditors are exceptional, field offices will once again be advised to make payments to implementing partners only when due.

Monitoring the performance of implementing partners is an integral part of UNHCR's Programme Management System. It is the responsibility of the UNHCR Representative or Head of Country Office to monitor implementation of projects entrusted to implementing partners and ensure that their performance is in accordance with the sub-agreements signed with them. In addition, the Regional Bureaux at Headquarters monitor the performance of implementing partners based on the financial and narrative reports received from field offices, as well as by undertaking monitoring missions to the field. Feedback on the performance of implementing partners is provided to field offices, mainly by the Regional Bureaux. Financial Resources Service at Headquarters in cooperation with the NGO Coordination Unit, provides technical support. Collaboration with an NGO is reviewed when it is determined that its performance is not satisfactory following a recommendation from the Representative, an assessment made at Headquarters level or as result of an Internal Audit mission. Failing corrective action by the implementing partner, the NGO Coordination Unit will, based on request from Financial Resources Service and the Regional Bureau, advise the field office not to engage the concerned NGO as an implementing partner. It should, however, be noted that in many instances UNHCR does not have a choice as the number of NGOs operating in certain areas is very limited.

UNHCR has conducted a series of training workshops, for field staff, on the preparation of Project Descriptions, Sub-Project Descriptions and Strategic Planning, leading to the preparation of the Country Operations Plan. To further complement this, UNHCR has over a period of two years carried out 57 Financial Management workshops, covering 1,172 staff members, where the importance of implementing partner financial monitoring was emphasized. UNHCR shall shortly be issuing a comprehensive chart describing delegation of financial signing authority that will reinforce the role of authorizing officers in the monitoring of the performance of implementing partners.

Previous recommendations not fully implemented

IX. RECOMMENDATION 8(a)

9. Ensure timely signing of sub-agreements with implementing partners (1995, 1996 and 1998);

Measures Taken by the Administration

UNHCR has previously informed the Board of the intensified efforts undertaken to ensure that field offices receive the required authorizations with sufficient advance notice to enable them to sign sub-agreements in a timely manner. There are, nevertheless, some instances when the sub-agreements must undergo lengthy negotiations and clearances, in particular when dealing with government partners. In these cases, some delays may occur, but cannot be curtailed, since this will adversely affect the population being assisted. The situation witnessed by the auditors during 1995, 1996 and 1998 was exceptional and has since greatly improved. UNHCR is of the opinion that all measures to address this recommendation have been taken and that it has been implemented.

X. RECOMMENDATION 8(b)

10. Make the preparation of work plans an integral part of the project-planning and monitoring process (1995, 1996 and 1998);

Measures Taken by the Administration

UNHCR agrees that workplans are an important element of project planning and monitoring. The level of detail of a plan will depend on the volume and complexity of the project. In some instances, a formal workplan may not be necessary. UNHCR is introducing new software that will allow the automated production of workplans. UNHCR is currently analysing different products. It is planned to procure the software in 2000, prototype and test its functionality, with a view to incorporating the results into the Integrated Systems Project. In the meantime, field offices will continue to use existing software tools (for instance, Microsoft Project and Excel) to prepare workplans where required.